

Consultation response

Draft EBA Guidelines on ICAAP and ILAAP information collection for SREP purposes

11 March 2016

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to respond to the EBA's consultation paper on the **Draft Guidelines on ICAAP and ILAAP information collection for SREP purposes**

Our overarching comments on the Draft Guidelines and our requests for additional clarifications in the final Guidelines can be found below. We remain of course at the EBA's disposal to discuss any of these matters further as required.

Overarching comments

AFME welcomes the EBA's objective of facilitating a consistent approach to the supervisory assessment of banks' ICAAP and ILAAP frameworks as well as the reliability of institutions' own capital and liquidity estimates as part of the Supervisory Review and Evaluation Process (SREP). The draft Guidelines provide useful insights into supervisory expectations regarding the content of ICAAPs and ILAAPs and how Competent Authorities (CAs) expect firms to demonstrate the effectiveness of their internal processes. Detailed Guidance on the required content of ICAAPs and ILAAPs is vital to ensuring their comparability and allows supervisors to assess their reliability in a consistent manner.

Further convergence and consistency

While we are supportive of the above objectives, we feel that the Guidelines could benefit from further harmonisation of supervisory approaches, thereby reducing the room for Competent Authorities (CAs) to diverge. We furthermore believe that multiplicity of information requests can arise as a consequence of the full supervisory framework, including recovery and resolution planning. While we understand that there are different objectives to the different parts of the overall process, the same information is often relevant in many contexts. A major step towards consistency and streamlining of these requests could be for the EBA (together with other authorities as required) to produce a map of information requirements covering e.g. ICAAP/ILAAP/other SREP and stress testing assessments and recovery and resolution plans in a single reference document.

We are also of the view that there is still a need to agree on the definitions of some types of risk. While it is true that the risks to be analysed should not be prescribed in the context of frameworks that are internal to institutions, varying understandings of what risks such as conduct, business or strategic risk constitute are likely to arise if there is no further specification, particular when a particular risk category comes to light and is under increased scrutiny. The divergence in understandings and approaches is precisely one of the current

criticisms of the application of Pillar 1 and should be avoided. Our members would therefore welcome the development of a clear, EU-wide risk taxonomy.

Lastly, we also do not see any justification for disallowing the recognition of diversification effects between risk categories and would welcome further discussion with the EBA and/or policy makers on this issue.

ICAAP/ILAAP governance issues

The expectations set out in the draft Guidelines in terms of ICAAP and ILAAP governance are somewhat redundant with other requirements/frameworks, such as Risk Appetite Framework expectations for SSM firms. We encourage the EBA to consider to what extent the creation of several governance frameworks within a firm, spanning all the way from top management through to the bottom of the organization, for metrics that are in effect the same is beneficial in practice. In our view, this type of duplication creates complexity particularly when it has to be implemented across business lines and entities.

The draft Guidelines also formalise the expectation that ICAAP and ILAAP metrics must be quantitatively allocated across an institution. We think that a mechanical allocation is neither feasible nor desirable - sound risk monitoring is based on a multi criteria set of limits that are articulated through with qualitative expectations.

Lastly, for those firms operating a two tier governance system, further guidance would be welcome as to how the notions of 'management body' and 'senior management' should be understood.

Specific comments on the ILAAP

With respect to the ILAAP, we consider that the proposed order of contents could be simplified and alternately structured in such a way as to allow firms to more clearly demonstrate their liquidity adequacy. As currently drafted, the order of sections begins with the liquidity risk management framework, moves on to funding strategy, then to liquidity buffers, funds transfer pricing, intraday risk, stress testing and contingency funding planning. This order is confusing and should be simplified in order to allow firms to better present their main liquidity and funding risks and how they manage these.

As a practical alternative, the EBA might wish to consider the proposed structure and content of ILAAP documents published by the UK PRA in their June 2015 paper "PRA's approach to supervising liquidity and funding risks". This suggested structure allows firms to clearly describe their conclusions of their overall liquidity adequacy review, clearly state their LCR positions, level of High Quality Liquid Assets, inflows and outflows then describe their liquidity and funding risk assessments before describing their risk management frameworks.

Disclosure requirements

We have reservations with paragraph 5.5 of the draft Guidelines. It may be read as though the intention could be for public disclosure of firms' ICAAPs and ILAAPs and it appears to be in contradiction with European Market Abuse regulations. We think this paragraph should be reconsidered and that the EBA should bear in mind that there are legitimate differences in the way material risks are measured and presented in internal contexts compared to reporting requirements to supervisors and the market.

Paragraph 5.2 d is also difficult to understand. It is unclear what is expected from the industry and we would welcome clarification.

Further requests for clarification/changes in the final Guidelines

Para 41c - Can the EBA please confirm that this requirement would be satisfied by providing templates for the harmonised funding plan according to EBA guidelines.

Para 42b - Additional clarification on what is meant by "[...] policy document on collateral management" in para 42b would be welcome as in practice this this generic description could cover a wide range of business activities.

Para 52d - Can the EBA specify what the notion of "testing procedures" covers? What if a "test" is not feasible in practice (e.g. unwinding a portfolio of less liquid assets, sale of an entity, etc.)?

Para 53b - Not all firms will set out "concrete" management actions in the contingency plan but will instead suggest a toolbox of options where the implementation of particular components/options would be assessed under the prevailing economic circumstances. We would ask that the EBA clarify its Guidelines to reflect this.

Para 29c - ICAAP and minimum own fund requirements are substantially different exercises and a risk-by- risk comparison is not possible in a meaningful way. We recommend that this requirement be removed.

AFME contact

Jacqueline Mills, jacqueline.mills@afme.eu

+44 (0)20 38282710

About AFME

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society. AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia. AFME is listed on the EU Register of Interest Representatives, registration number 65110063986-76.